

BERLIN-ORANGE FIRE DEPARTMENT

Ionia County, Michigan

Financial Statements

And

Independent Auditor's Report

For the Year ended March 31, 2008

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

| | | | |
|--|--|---------------------------|-------------------|
| Unit Name* BERLIN ORANGE FIRE DEPARTMENT | County* IONIA | Type* OTHER | MuniCode* |
| Opinion Date-Use Calendar* Jul 29, 2008 | Audit Submitted-Use Calendar* Sep 17, 2008 | Fiscal Year End Month* 03 | Fiscal Year* 2008 |

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

| | |
|---------------------------------------|--|
| <input checked="" type="checkbox"/> ? | 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements? |
| <input checked="" type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 3. Were the local unit's actual expenditures within the amounts authorized in the budget? |
| <input type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 5. Did the local unit adopt a budget for all required funds? |
| <input checked="" type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division? |
| <input type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy? |
| <input checked="" type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.) |
| <input checked="" type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 13. Is the audit opinion unqualified? |
| <input checked="" type="checkbox"/> ? | 14. If not, what type of opinion is it? NA |
| <input checked="" type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 16. Has the board or council approved all disbursements prior to payment as required by charter or statute? |
| <input checked="" type="checkbox"/> ? | |
| <input checked="" type="checkbox"/> ? | 18. Are there reported deficiencies? |
| <input checked="" type="checkbox"/> ? | 19. If so, was it attached to the audit report? |

| | |
|----------------------------|--|
| General Fund Revenue: | <input type="checkbox"/> ? \$ 530,608.00 |
| General Fund Expenditure: | <input type="checkbox"/> ? \$ 511,167.00 |
| Major Fund Deficit Amount: | \$ 0.00 |

| | |
|--|---|
| General Fund Balance: | <input type="checkbox"/> ? \$ 10,301.00 |
| Governmental Activities Long-Term Debt (see instructions): | <input type="checkbox"/> ? \$ 9,411.00 |

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

| | | | | |
|--|---|--------------------------------------|-------------------|------------------------------|
| CPA (First Name)* LAWRENCE | Last Name* TIEJEMA | Ten Digit License Number* 1101026843 | | |
| CPA Street Address* 31 E MAIN ST PO BOX 10 | City* SARANAC | State* MI | Zip Code* 48881 | Telephone* +1 (616) 527-0384 |
| CPA Firm Name* LAWRENCE TIEJEMA, PC | Unit's Street Address* 31 E MAIN ST PO BOX 10 | Unit's City* SARANAC | Unit's Zip* 48881 | |

FORM 496

DISCLOSURE STATEMENTS

STATEMENT

QUESTION 4: BERLIN ORANGE FIRE DEPARTMENT DID NOT USE THE UNIFORM CHART OF ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008. INSTEAD, IT USED ONLY ACCOUNT NAMES. BERLIN ORANGE FIRE DEPARTMENT IS NOW COMPLIANT FOR THE CURRENT YEAR AND IS USING THE UNIFORM CHART OF ACCOUNTS AS REQUIRED BY THE MICHIGAN DEPARTMENT OF TREASURY.

QUESTION 8: THE BERLIN ORANGE FIRE DEPARTMENT DOES NOT COLLECT TAXES TO DISPERSE TO OTHER GOVERNMENTAL ENTITIES.

QUESTION 18: SIGNIFICANT DEFICIENCIES ARE LISTED ON THE CLOSING PAGES OF THE AUDIT ALONG WITH THE REPOSE OF THE BERLIN ORANGE FIRE DEPARTMENT.

BERLIN-ORANGE FIRE DEPARTMENT

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Lawrence Tiejema, PC Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

July 29, 2008

The Berlin-Orange Fire Department Board
Berlin-Orange Fire Department
Ionia County, Michigan

I have audited the accompanying financial statements of the governmental activities of Berlin-Orange Fire Department, Ionia County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire Department management. My responsibility is to express opinions on these financial statements based on my audit.


I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Berlin-Orange Fire Department, as of March 31, 2008, and the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated July 29, 2008, on my consideration of Berlin-Orange Fire Department's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berlin-Orange Fire Department's basic financial statements. The governmental schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.


Lawrence Tiejema, PC.

July 29, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Berlin and Orange Townships increased their capital contributions in the year ended March 31, 2008, to assist in the completion of the new fire truck, Engine 3.

Financial Highlights

- (1) The Fire Department placed a new fire truck (Engine 3) into operation in the year just ended. Each township contributed \$180,329 to the basic cost of \$360,658.
- (2) The Fire Department added equipment to Engine 3 to make it fully operational. Herbruck Poultry contributed \$18,105 and \$26,187 was used from the operating budget during the past two years.
- (3) The Fire Department paid down \$20,148 of the debt owing on Engine 2 during the year ended March 31, 2008. There is a remaining balance of \$9,411 that will be paid during the current year.
- (4) The Fire Department's general fund had \$19,441 more in revenue than expenditures in the year ended March 31, 2008.
- (5) The cost of insurance rose from \$11,548 in the prior year to \$19,526 in the year ended 03/31/2008. The acquisition of Engine 3 played a major role in the increase of insurance costs.
- (6) Utility costs rose significantly during the year ended 03/31/2008, going from \$2,965 in the prior year to \$4,118 in the year just ended.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating. The *statement of activities* presents information showing how the Fire Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Local governments may have activities that are intended to recover all or a significant portion of their costs through user fees and charges. Berlin Orange Fire Department has no such activities. All financial resources and expenditures are maintained in the general fund. Through its general fund, Berlin Orange Fire Department provides fire mitigation and first responder services for Berlin and Orange Townships. The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fire Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government wide-financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund statements. The notes to the financial statements can be found on pages 17 to 26 of this report.

Statement of Net Assets

| | Year ended March 31, 2008 |
|--|------------------------------|
| Current and other assets | \$ 20,860 |
| Capital assets | 614,110 |
| Total assets | <u>634,970</u> |
| Long-term liabilities outstanding | |
| Other liabilities | 20,240 |
| Total liabilities | <u>20,240</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 604,699 |
| Restricted | |
| Unrestricted | 10,031 |
| Total net assets | <u><u>\$ 614,730</u></u> |

The current assets of the Berlin Orange Fire Department consist of a checking account held at Firstbank in Ionia, Michigan. The capital assets consist of the fire station, fire equipment, and office equipment. The Fire Department's liabilities consist of accounts payable and the remainder of the debt owing on Engine 2. The accounts payable balance of \$10,829 includes accrued wages of \$8,550 and services received before April 1, 2008, of \$2,279. During the year, net assets rose \$407,290. Of this number, \$387,849 of the increase came from capital assets. The large increase in capital assets resulted from Engine 3 coming on line.

Statement of Changes in Net Assets

| | Year ended March 31, 2008 |
|------------------------------------|------------------------------|
| Revenue: | |
| Operating grant | |
| State of Michigan | 2,560 |
| General revenue: | |
| Township contributions | 500,658 |
| Sales of used equipment | 6,000 |
| Gifts and donations | 18,105 |
| Refunds and reimbursements | 2,975 |
| Interest earnings | 310 |
| Total revenue | 530,608 |
| Expenses: | |
| Fire department payroll | 35,041 |
| Fire department equipment/supplies | 58,446 |
| Fire department administration | 29,831 |
| Total expenses | 123,318 |
| Increase (decrease) in net assets | 407,290 |
| Net assets - beginning of year | 207,440 |
| Net assets - end of year | 614,730 |

The primary source of income for the fire department is the contributions of Orange and Berlin Townships. Each contributed \$70,000 to operating and \$180,329 for the purchase of Engine 3. Other important revenues received during the past two years were the \$18,105 contribution of the Herbruck Family and the insurance reimbursement from Travelers Insurance for a radio that was destroyed. The fire department's payroll is made up of fire fighter pay for fire/accident runs and attendance at meetings and payments to the fire chiefs. For the year just ended, the fire fighters received \$28,370, and the fire chiefs received \$4,500. The fire-fighting equipment and supplies consists of fire fighting supplies and equipment, gas, oil, and repairs of the fire trucks, and the depreciation expense on fire equipment whose cost is \$500 or more. For the year ended March 31, 2008, the supplies and equipment expense was \$15,307 and depreciation expense was \$37,249. Administration expense consists of property insurance, building maintenance, memberships and dues, utilities, and payroll processing. The leading administrative expenses were insurance premiums of \$19,526 and utility costs of \$4,118.

**Statement of Capital Assets
(net of depreciation)**

| | <u>Year ended March 31, 2008</u> | <u>Year ended March 31, 2007</u> |
|---------------------|--------------------------------------|--------------------------------------|
| Land | 19,235 | 19,235 |
| Fire Station | 5,151 | 6,213 |
| Fire Equipment | <u>589,724</u> | <u>220,961</u> |
| Total Assets | <u>614,110</u> | <u>246,409</u> |

All fire equipment with an original cost of \$500 or more is included in the charts above. In the year ended March 31, 2008, capital assets increased \$367,701. This was mainly the result of bringing Engine 3 into service. Engine 3 represents \$380,199 of the fire equipment while Engine 2 represents \$108,000. The original cost of all fire equipment is \$918,718 and the accumulated depreciation is \$328,994 as of March 31, 2008.

The Current Year and Future Years

The Fire Department has always been funded by Orange and Berlin Townships on a 50-50 basis. Beginning in the fiscal year of 2008-09, it will be funded by percentage of runs in each township with capital purchases being split 50-50.

Last year we purchased a new fire engine, Engine 3, and added necessary equipment. Engine 2 will be paid in full in September 2008. Our insurance increased this year due to the new fire truck and equipment as was budgeted. Also noted was an increase in our utility costs due to increase in gas and electric energy prices.

Looking ahead to the New Year, we are looking into an addition on both sides of the building to extend an area for the firemen to include kitchen, handicap accessible bathroom and an area for storage of supplies for first responders. A second addition has been discussed for the west side of the building to hold a small fire truck and miscellaneous equipment.

T-Mobile represented by Timothy J Lundgren is interested in leasing some land from the fire department for putting up a cell phone tower. A proposed contract has been reviewed by our attorneys, Varnum, Riddering, Schmidt, and Howlett, and has been forwarded to a T-Mobile representative.

BERLIN ORANGE FIRE DEPARTMENT

STATEMENT OF NET ASSETS

March 31, 2008

Assets

Current assets

| | | |
|----------------------|----|--------|
| Cash and deposits | \$ | 20,860 |
| Total current assets | | 20,860 |

Non-current assets

| | | |
|--------------------------------|--|-----------|
| Capital assets | | 979,197 |
| Less: accumulated depreciation | | (365,087) |
| Net capital assets | | 614,110 |

| | | |
|---------------------|--|----------------|
| Total Assets | | 634,970 |
|---------------------|--|----------------|

Liabilities

Current Liabilities:

| | | |
|---------------------------|--|--------|
| Accounts payable | | 1,625 |
| Accrued wages | | 8,550 |
| Accrued payroll taxes | | 654 |
| Note payable -- current | | 9,411 |
| Total current liabilities | | 20,240 |

| | | |
|--------------------------|--|---------------|
| Total Liabilities | | 20,240 |
|--------------------------|--|---------------|

Net Assets

| | | |
|----------------------------|--|---------|
| Invested in capital assets | | 604,699 |
| Unrestricted net assets | | 10,031 |

| | | |
|-------------------------|----|----------------|
| Total net assets | \$ | 614,730 |
|-------------------------|----|----------------|

The accompanying notes are an integral part of these financial statements.

BERLIN ORANGE FIRE DEPARTMENT

STATEMENT OF ACTIVITIES

For the Year ended March 31, 2008

| <u>Functions/ Programs</u> | <u>Expenses</u> | <u>Operating Grant</u> | <u>Net (Expense) Revenues</u> |
|---|-----------------|----------------------------|-----------------------------------|
| Governmental activities: | | | |
| Culture and recreation: | | | |
| Fire dept payroll | \$ 35,041 | \$ - | \$ (35,041) |
| Fire dept supplies & equipment | 58,446 | 2,560 | (55,886) |
| Fire dept administration | 29,831 | - | (29,831) |
| Total government activities | <u>123,318</u> | <u>2,560</u> | <u>(120,758)</u> |
| General revenues: | | | |
| Township contributions | | | 140,000 |
| Township capital contributions | | | 360,658 |
| Sales of used equipment | | | 6,000 |
| Gifts and donations | | | 18,105 |
| Refunds & reimbursements | | | 2,975 |
| Interest earnings | | | 310 |
| Total general revenues | | | <u>528,048</u> |
| Changes in net assets | | | <u>407,290</u> |
| Net assets at the beginning of year | | | 207,440 |
| Net assets at the end of year | | | <u>\$ 614,730</u> |

The accompanying notes are an integral part of these financial statements.

BERLIN ORANGE FIRE DEPARTMENT
BALANCE SHEET – GOVERNMENTAL FUNDS

March 31, 2008

| GENERAL FUND | |
|---|------------------|
| ASSETS: | |
| Cash and deposits | \$ 20,860 |
| TOTAL ASSETS | 20,860 |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES: | |
| Accounts payable | 1,625 |
| Accrued wages | 8,550 |
| Accrued payroll taxes | 654 |
| TOTAL LIABILITIES | 10,829 |
| FUND BALANCE | |
| Undesignated | 10,031 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 20,860 |

The accompanying notes are an integral part of these financial statements.

BERLIN ORANGE FIRE DEPARTMENT
BALANCE SHEET – GOVERNMENTAL FUNDS

Reconciliation of Fund Balances of Governmental Funds to Net Assets

March 31, 2008

| | |
|--|-------------------|
| Fund balance -- total governmental funds..... | \$ 10,031 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. | |
| Add -- capital assets..... | 979,197 |
| Deduct -- accumulated depreciation..... | (365,087) |
| Deduct -- note payable which is a non-current liability..... | (9,411) |
| Net assets of governmental activities..... | <u>\$ 614,730</u> |

The accompanying notes are an integral part of these financial statements.

BERLIN ORANGE FIRE DEPARTMENT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED MARCH 31, 2008

REVENUES:

| | |
|---------------------------------|----------|
| Operating Grant | |
| State of Michigan | \$ 2,560 |
| Township operating contribution | 140,000 |
| Township capital contributions | 360,658 |
| Sales of used equipment | 6,000 |
| Gifts and donations | 18,105 |
| Refunds and reimbursements | 2,975 |
| Interest earnings | 310 |

TOTAL REVENUES 530,608

EXPENDITURES:

| | |
|-------------------------------------|---------|
| Fire Department Payroll: | |
| Wages | 28,370 |
| Fire Chiefs | 4,500 |
| Payroll taxes | 2,171 |
| Total Payroll | 35,041 |
| Fire Department Equipment/Supplies: | |
| Fire equipment | 420,257 |
| Gas and oil | 3,897 |
| Repair and maintenance | 1,993 |
| Total Equipment/Supplies | 426,147 |
| Fire Department Administration: | |
| Insurance | 19,526 |
| Office supplies | 150 |
| Dues & memberships | 1,280 |
| Community promotion | 556 |
| Utilities | 4,118 |
| Building maintenance | 2,995 |
| Accounting services | 612 |
| Payment on fire truck | 20,742 |
| Total Fire Administration | 49,979 |

TOTAL EXPENDITURES 511,167

| | |
|---------------------------------|-----------|
| Excess of revenues over (under) | \$ 19,441 |
| expenditures | |

| | |
|----------------------------------|------------------|
| Fund balances, beginning of year | (9,410) |
| Fund balances, end of year | <u>\$ 10,031</u> |

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

| | | |
|--|-----------|----------------|
| Net change in fund balances -- total government funds..... | \$ | 19,441 |
| Government funds expense capital outlays in the current year while the Statement of Net Assets allocates them over useful life: | | |
| Add principal payments made on fire truck loan..... | | 20,148 |
| Add -- Capital Assets acquired and expensed by depreciation..... | | 404,950 |
| Deduct - depreciation expense..... | | (37,249) |
| Change in net assets of government activities..... | <u>\$</u> | <u>407,290</u> |

The accompanying notes are an integral part of these financial statements

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Berlin-Orange Fire Department was formed in 1973 and organized as the Berlin-Orange Fire Department to provide fire protection service to Berlin and Orange townships under the applicable laws of the State of Michigan. The Fire Department is governed by a fire committee of six members, three from each township. The townships of Orange and Berlin provide operating and capital contributions on an equal basis. During the year-ended March 31, 2008, the townships each contributed \$70,000 for operation, and \$170,329 to the purchase of a new fire truck. The goal of the Berlin-Orange Fire Department is to provide fire protection and first responder emergency services to the residents of both townships.

The financial statements of the Fire Department have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fire Department's accounting policies are described below:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present a financial report on all funds of Berlin-Orange Fire Department.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures in the current period. Township contributions for operating and capital expenditures are susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Fire Department. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered to be available when all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

Fund Accounting

The accounts of the Fire Department are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity or net assets, revenues, and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Fire Department reports all of its financial activity in the General Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Fire Department has elected not to follow subsequent private-sector guidance in the Statement of Net Assets and the Statement of Activities.

Budgets and Budgetary Accounting

Annual budgets are adopted for the general fund on a basis consistent with generally accepted accounting principles (GAAP). The Berlin-Orange Fire Department follows these procedures in establishing the budgetary data which is reflected in the financial statements:

The budgets are generated with input from the fire chiefs, and the fire department committee.

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

1. Public hearings are conducted to obtain taxpayer comments and recommendations. The operating budgets include proposed expenditures and the means of financing them.
2. The budget is legally enacted through the passage of a resolution.
3. Formal budgetary integration is employed as a management control device during the year for all budgeted funds.
4. Budget appropriations lapse at fiscal year-end.

Investments

Investments are stated at fair value.

Restricted Assets

Certain proceeds may be set-aside or restricted for the repayment of debt obligations, a planned capital project, or for any other special purpose. The Berlin-Orange Fire Department has no restrictions on its net assets.

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the governmental funds in the government-wide financial statements. The Fire Department does not currently own infrastructure (roads, tunnels, bridges, etc.) Capital assets are defined by the government as assets with an estimated useful life in excess of one year which exceed \$500.00 in cost. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on the capital assets of the primary government is computed using the straight-line method over the following estimated useful lives:

| | Depreciable <u>Life-Years</u> |
|-----------------------------------|----------------------------------|
| Building and structures..... | 20 - 50 |
| Furniture and fire equipment..... | 5 - 20 |
| Office Equipment..... | 5 - 15 |

Long-Term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. In the governmental fund statements, payments are recognized as expenses when paid.

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

Fund Equity

In the fund statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent restricted net assets equal to restricted assets less related liabilities. The general fund of the Berlin-Orange Fire Department has no reservation or designations of its \$10,031 fund balance.

Risk Management

The Fire Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2008, the Fire Department was covered by a liability and property insurance policy through the Michigan Township Participating Plan through Burnham and Flower Agency, Inc.

The insurance limitations are: Property, \$156,928; Liability, \$5,000,000; Wrongful acts, \$5,000,000; Crime, \$10,000; and vehicle, \$5,000,000.

2. CASH DEPOSITS AND INVESTMENTS

The carrying amount of the Fire Department deposits at March 31, 2008, is \$20,860. All of these deposits are insured by the Federal Deposit Insurance Corporation. In accordance with State of Michigan policy limits, these deposits are all deposited in a Michigan bank. All accounts are in the name of the Fire Department and a specific fund or common account. They are recorded in the Fire Department records at fair value.

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

Statutory Authority

State statutes authorize the Fire Department to invest in:

1. Bond securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services that matures not more than 270 days after date of purchase.
4. Banker's acceptances of United States banks.
5. Obligations of the State of Michigan or its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
6. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
7. External investment pools as authorized by Public Act 20 as amended through December 21, 1997.

Fire Department investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the Fire Department or its agent in the Fire Department's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Fire Department's name.

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Fire Department's name.

All deposit accounts of Berlin-Orange Fire Department are in Category 1, registered and insured and are listed as follows:

| <u>Depository</u> | <u>Account</u> | <u>Amount @ 03/31/08</u> |
|----------------------------|-------------------------------|--------------------------|
| General Fund: | | |
| Firstbank West Michigan | General Fund checking account | \$ <u>20,860</u> |
| TOTAL DEPOSITED FUNDS..... | | \$ <u>20,860</u> |

BERLIN-ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

3. CAPITAL ASSETS

A summary of changes in Capital Assets follows:

| | Balance March 31, 2007 | Additions | Disposals | Balance March 31, 2008 |
|--------------------------------|------------------------------|-----------|-----------|------------------------------|
| Governmental activities: | | | | |
| Capital Assets: | | | | |
| Land | \$ 19,235 | - | | \$ 19,235 |
| Fire Station | 41,244 | - | | 41,244 |
| Fire equipment | 513,768 | 404,950 | | 918,718 |
| Total Assets | 574,247 | 404,950 | | 979,197 |
| Less accumulated depreciation: | | | | |
| Land | - | - | | - |
| Fire Station | 35,031 | 1,062 | | 36,093 |
| Fire equipment | 292,807 | 36,187 | | 328,994 |
| Total depreciation | 327,838 | 37,249 | | 365,087 |
| Capital Assets, net | \$ 246,409 | | | \$ 614,110 |

Depreciation expense was charged to functions/programs of the general government as follows:

| | |
|-------------------------|---------------|
| Fire Station..... | \$ 1,062 |
| Fire equipment..... | <u>36,187</u> |
| Total depreciation..... | \$ 37,249 |

BERLIN ORANGE FIRE DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

4. LITIGATION

In the normal course of its activities, the Fire Department could become a party in various legal actions. Management of the Fire Department is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Fire Department and, therefore, has not reflected loss reserves in the financial statements.

5. LONG-TERM OBLIGATIONS

In the government-wide financial statements, the long-term debt is reported as a liability of the general fund. The Fire Department has one outstanding lease/purchase agreement on a fire truck, Engine 2. On August 23, 2002, the Fire Department entered into a lease/purchase agreement for a new fire truck. This agreement has been reported as a capital lease with the cost of the equipment and original debt recorded at \$108,175. The agreement required 12 semiannual payments that began at March 23, 2000 in the amount of \$10,371 including interest at 4.27%. During the year ended March 31, 2008, two payments of \$10,371.26 of principal and interest were made.

The following is a summary of the debt transactions for the year ended March 31, 2008:

| <u>Balance</u> <u>03/31/2007</u> | <u>Principal</u> <u>Paid</u> | <u>Balance</u> <u>03/31/2008</u> | <u>Due within</u> <u>one year</u> |
|-------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|
| \$ 29,559 | \$ 20,148 | \$ 9,411 | \$9,411 |

SUPPLEMENTAL INFORMATION

GENERAL FUND

The General Fund is used to account for Fire Department resources that are not required legally or by sound financial management to be recorded in another fund. Revenues in this fund are derived primarily from township operating and capital donations from Berlin and Orange Townships.

The legal level of budgetary control of the General Fund is at the activity level, as reflected on the following Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual.

**BERLIN-ORANGE FIRE DEPARTMENT
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED MARCH 31, 2008**

| | BUDGETED AMOUNTS | | | VARIANCE POSITIVE (NEGATIVE) |
|-----------------------------------|-------------------------|-------------------|-------------------|---|
| | ORIGINAL | FINAL | ACTUAL | |
| REVENUES: | | | | |
| Operating state grant | \$ 1,352 | \$ 1,352 | \$ 2,560 | \$ 1,208 |
| Township operating contribution | 120,000 | 120,000 | 140,000 | 20,000 |
| Township capital contribution | 188,000 | 360,000 | 360,658 | 658 |
| Sales of used equipment | - | - | 6,000 | 6,000 |
| Gifts and donations | - | 18,105 | 18,105 | - |
| Refunds & reimbursements | - | - | 2,975 | 2,975 |
| Interest earnings | 91 | 91 | 310 | 219 |
| TOTAL REVENUES | 309,443 | 499,548 | 530,608 | 31,060 |
| EXPENDITURES: | | | | |
| Fire department wages | 36,200 | 36,200 | 28,370 | 7,830 |
| Fire chief pay | 4,500 | 4,500 | 4,500 | - |
| Payroll taxes | 2,800 | 2,800 | 2,171 | 629 |
| Fire supplies & equipment | 155,025 | 420,257 | 420,257 | - |
| Gas & oil | 4,000 | 4,000 | 3,897 | 103 |
| Fire equipment repair/maintenance | 5,900 | 5,900 | 1,993 | 3,907 |
| Insurance | 16,000 | 16,000 | 19,526 | (3,526) |
| Office supplies | 500 | 500 | 150 | 350 |
| Dues & memberships | 1,000 | 1,000 | 1,280 | (280) |
| Community promotion | 550 | 550 | 556 | (6) |
| Utilities | 2,500 | 2,500 | 4,118 | (1,618) |
| Building & grounds maintenance | 3,920 | 3,920 | 2,995 | 925 |
| Accounting services | - | - | 612 | (612) |
| Payments on fire truck loan | 20,742 | 20,742 | 20,742 | - |
| TOTAL EXPENDITURES | \$ 253,637 | \$ 518,869 | \$ 511,167 | \$ 7,702 |

| | <u>BUDGETED AMOUNTS</u> | | | VARIANCE POSITIVE (NEGATIVE) |
|------------------------------------|-------------------------|--------------------|------------------|---|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>ACTUAL</u> | |
| REVENUES OVER (UNDER) | | | | |
| EXPENDITURES | <u>55,806</u> | <u>(19,321)</u> | <u>19,441</u> | <u>38,762</u> |
| NET CHANGE IN FUND BALANCES | | | | |
| FUND BALANCE, BEGINNING OF YEAR | <u>(9,410)</u> | <u>(9,410)</u> | <u>(9,410)</u> | <u>-</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 46,396</u> | <u>\$ (28,731)</u> | <u>\$ 10,031</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

Lawrence Tiejema, PC Certified Public Accountant

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

July 29, 2008

Berlin Orange Fire Department Board
Berlin Orange Fire Department

I have audited the financial statements of the governmental activities of the Berlin Orange Fire Department of Ionia County, State of Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Fire Department's basic financial statements and have issued a report thereon dated July 29, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Berlin Orange Fire Department's internal control as a basis for designing my audit procedures for the purposes of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Berlin Orange Fire Department's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Fire Department internal control. I noted no material weaknesses in the internal control of Berlin Orange Fire Department. However, I did note six significant deficiencies that are described in the attached schedule that are titled 2008-1 through 2008-6.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berlin Orange Fire Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The Berlin Orange Fire Department maintains a chart of accounts without using account numbers as required by the Uniform Chart of Accounts covered by MCL 141.421. Except for the non-compliance of the Fire Department's Chart of Accounts, the results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of the fire board committee, bond and credit holders, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Lawrence Tiejema, PC.

July 29, 2008

SCHEDULE OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

BERLIN ORANGE FIRE DEPARTMENT – YEAR ENDED MARCH 31, 2008

- 2008-1: The Fire Department accounting personnel do not prepare the accruing entries necessary for preparation of the government-wide financial statements. They rely on the auditor to make all of these adjustments.
- Fire Board Response: The Fire Department accounting personnel will receive training so that they can prepare accruing entries for the next audit.
- 2008-2: The board does not have a formal procedure for reviewing all bills and their supporting documentation prior to the board's consideration and approval.
- Fire Board Response: The fire board will assign a member who is not involved with accounting or custody of assets to review all supporting documentation and certify its accuracy.
- 2008-3 The Fire Department has no specific method to prevent the non-payment of a vendor.
- Fire Board Response: The fire board will assign a member to keep a list of services purchased and match the services with invoices/bills received.
- 2008-4: The Fire Department operates under traditional purchasing guidelines whereby bids are used for all significant purchases. However, the board does not have a formal, written purchasing policy as required by the Michigan Department of Treasury.
- Fire Board Response: The Fire Department will adopt a written purchasing policy during the current year.
- 2008-5: The Fire Department does not have a formal procedure for recognizing equipment obtained with donated funds and recording the disposal of equipment when it is sold.
- Fire Board Response: All donated equipment will be reported by the fire chief to the accounting personnel so that a list of equipment can be updated and the revenue recognized.

2008-6: The Fire Department does not maintain by date and cost a capital asset schedule that records the acquisition and disposal of fire equipment.

Fire Board Response: The Fire Department accounting personnel will receive training so that they can maintain the fixed asset schedule and calculate depreciation expense.